



May 1, 2001

To the Board of Water Commissioners and Our Customers:

We are pleased to transmit the Comprehensive Annual Financial Report ("CAFR") of Denver Water for the year ended December 31, 2000.

Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with Denver Water. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of Denver Water. All disclosures necessary to enable the reader to gain an understanding of Denver Water's financial and operational activities have been included.

This report is presented in three sections as follows:

- A. Introductory Section, which includes this transmittal letter, excerpts from the charter, organization chart, and list of principal officials.
- B. Financial Section, which includes the financial statements, supplementary property and bond schedules, and the auditor's report on the financial statements and schedules.
- C. Statistical Section, which includes selected operational and financial information, generally presented on a multi-year basis.

The Reporting Entity

The privately owned Denver City Water Company was organized in November 1870. It was merged into the Denver Union Water Company in October 1894, along with several smaller companies serving various parts of a growing Denver. In November 1918, the five-member governing board of the Denver Water Department purchased the company for the citizens of the City and County of Denver ("City"). The Denver Water Department was set up as an independent City water agency, with the philosophy that it would be operated as a business and remain separate from political influences.

Denver Water is governed by a five-member board appointed by the Mayor of the City for overlapping six-year terms. Denver Water has complete charge and control of a water works system and plant, which supplies water to customers located within the City and to entities serving other customers located in certain outlying areas in the Denver metropolitan area.

In accordance with Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity," Denver Water would be classified as 1) an "other stand-alone government" since Denver Water is a legally separate and distinct entity from the City under the Charter of the City, and the City is not financially accountable for Denver Water, and 2) a "related organization" since the Mayor of the City appoints Denver Water's governing body, but is not financially accountable. The City elects to include Denver Water's financial statements in its general-purpose financial statements as a component unit enterprise fund because, in the City's opinion, the nature and significance of Denver Water's relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete.

The Mission of Denver Water is as follows:

Denver Water will provide our customers with high quality water and excellent service through responsible and creative stewardship of the assets we manage. We will do this with a productive and diverse work force. We will actively participate in and be a responsible member of the water community.

The Year 2000 In Review

In the year 2000, the population base served by Denver Water exceeded one million people for the first time. Also in 2000, Denver Water delivered the largest volume of water in its history. The long, hot summer, which drove the record-breaking consumption, also produced water sales revenues that exceeded projections, leaving Denver Water in strong financial condition.

Denver Water supplied 83.6 billion gallons of treated water to its customers in 2000, exceeding the previous high set in 1988 by almost five billion gallons, or six percent. Despite this, per capita consumption was only 228 gallons per day. While that is the highest per capita daily consumption during the past 11 years, it is seven percent less than the daily per capita consumption in 1988. Additionally, from 1988 to 2000, Denver Water's treated water customer population grew by 121,000, or 14 percent, indicating that Denver Water's customers did a good job using water wisely during one of the hottest years on record.

Temperatures in Denver in 2000 exceeded the average in every month from January through September. This also contributed to the high water deliveries for the year. The city recorded 61 days of temperatures of 90 degrees or above, breaking a 1994 record of 60 days of 90 degrees or higher. Also, it was one of the driest years in the past two decades with an annual precipitation of only 14.29 inches, down more than three inches from a normal year. While there were no days in 2000 when customers used 500 million gallons or more (historically, a typical summer high use day), relatively high use was sustained throughout the entire summer season. There were 56 days in 2000 when customers used 400 million gallons of water or more. That is more than twice the number of days in any previous year.

Treatment and Water Quality

Denver Water continued to focus on water quality in 2000 with some major additions to the Foothills Treatment Plant. In August, work began on a new 25 million-gallon underground treated water reservoir, the largest storage tank of its kind between the Mississippi River and the West Coast. The tank is 40 feet deep and 400

feet in diameter. The floor of the reservoir was poured on December 2nd, with 75 concrete trucks delivering and pouring 3,300 yards of concrete while 200 workers placed, finished and inspected the concrete. The Foothills reservoir will replace some storage lost at Denver Water's two other treatment plants when water storage facilities at those plants were redesigned to act as chlorine contact basins to maintain federal water quality standards.

Fires

The hot, dry weather not only drove high water consumption but it also contributed to two devastating fires on Denver Water's watersheds. The Hi Meadow Fire burned 11,000 acres on the South Platte watershed. No Denver Water buildings were destroyed, but silt and fire debris washed into the upper end of Strontia Springs Reservoir, adding to the ongoing problem of sediment accumulation. A fire in El Dorado Canyon near Gross Reservoir burned 1,100 acres and caused the evacuation of the families of Denver Water's caretakers. About 70 acres of the area burned in the El Dorado fire were on Denver Water property.

Watershed Protection

In response to the Buffalo Creek fire in 1996, which destroyed 11,900 acres on Denver Water's South Platte watershed and left Strontia Springs Reservoir with an accumulation of debris and ash, Denver Water entered into a contract with the Colorado State Forest Service to clear fallen and dead timber and to thin growth in its forests on the Front Range. During 2000, the project cleared and conducted controlled burns on 225 acres of Denver Water's land. The Upper South Platte Watershed Protection and Restoration Project will manage Denver Water's land and surrounding forests so that 25 percent of the area is in openings of one to 40 acres, 40 percent is relatively open Ponderosa Pine, 20 percent is a combination of Ponderosa Pine and Douglas Fir, and the remaining 15 percent is old growth forest. Also, a second project began at Winiger Ridge to manage 40,000 acres around Gross Reservoir using these new forest management techniques. During 2000, the Winiger Ridge Project developed a forest stewardship plan and began the treatment and cutting of beetle-infested pines.

Conservation

The commercial and industrial conservation performance contracting program continued to grow in 2000 with nine completed contracts producing annual water savings of 76.8 acre feet. Also, seven other companies signed up to implement technological changes in production that are projected to produce another 39 acre-feet of water savings. Under the program, Denver Water "buys" the saved water from the companies through cash awards. There is a similar program for irrigation customers. It includes five contracts with projected savings of approximately 150 acre-feet per year.

Main Rehabilitation Program

During 2000, Denver Water rehabilitated more than 15,000 feet of water mains, principally in the Cherry Creek neighborhood. Relining aging water mains with cement or epoxy results in a savings of between \$15 and \$20 per linear foot over replacing the pipe. Pipe renovation results in better quality water as well as improvements in service.

Treated Water Quality Study

The Hydraulics Section of the Planning Division completed its study of Denver Water's distribution system and its ability to deliver water from Denver's treatment plants to its customers' homes or businesses. Utilizing projected future demands, the study evaluated the capacity of conduits, pump stations, and clear water storage

reservoirs. Vulnerabilities to these systems were identified and systematic steps were developed to eliminate the vulnerabilities. As a result of the study, Denver Water will make adjustments to its 10-year capital improvement plan to build a more reliable delivery system, while reducing the plan by \$24 million over the next 10 years.

Automatic Meter Reading

In 2000, the Board of Water Commissioners approved converting to automatic meter reading. The capital plan has \$40 million for the five-year project. Denver Water will realize savings in personnel costs as the new technology, which reads meters utilizing radio signals, is installed on new and existing meters.

Reuse Water Treatment and Delivery

Denver Water engineers received approval from the Board for the design and construction of a treatment and distribution system to deliver reuse water principally to the northeast section of the city for outdoor irrigation and industrial use. The project will cost \$140 million and will be built in two phases. The groundbreaking will be in May 2001 and the first phase will be in operation by the year 2003.

Denver Water Employees

Denver Water's authorized staffing for 2000 was 1,046, with 1005.5 regular and introductory employees at year-end. There were 482 employees with 15 or more years of service. Twenty employees retired during the year with a combined 552 years of service. Denver Water once again experienced a low turnover rate of 8.9%.

Financial Information

Discussion of Controls

Internal Control Structure. Management of Denver Water is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of Denver Water are protected from loss, theft, or misuse, and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgetary Controls. In addition, although Denver Water is not legally required to adopt budgetary accounting and reporting and make appropriations for expenditures, it does maintain budgetary controls through a formal budget process, which involves:

- Maintaining a long-range plan for addition and replacement of water system facilities based on projected demands for water, which is updated annually and is used as a basis for projecting capital expenditures in the budget.
- Maintaining a long-range plan for operation and maintenance activities.
- Developing a long-range financial plan for issuance of debt and adjustment of water rates.

- Developing annual work plans by program (raw water, reuse, water treatment, delivery, and general plant), based on the long-range plan, for operation and maintenance activities and capital projects.
- Establishing cost control center budgets for labor, materials, and services for each of the projects or activities listed on the annual operation and maintenance and capital work plans, which are combined on a total entity basis.
- Providing explanations for significant variances between budgeted and actual expenditures to the Board on a quarterly basis.

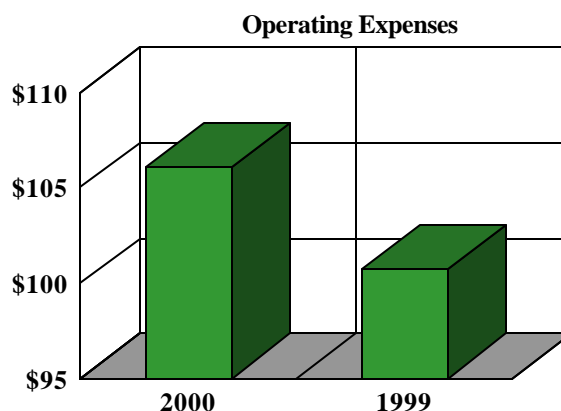
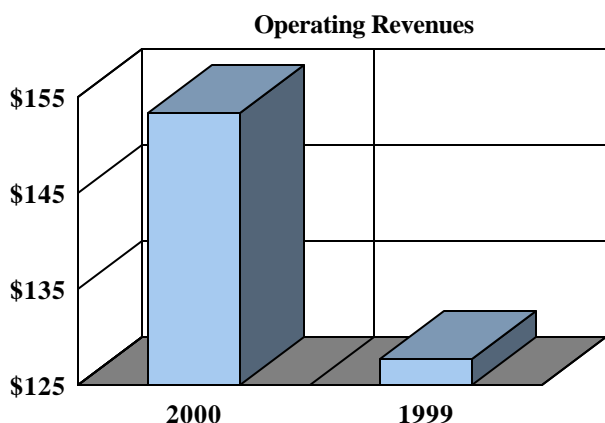
Discussion of 2000 Operating Results

Summary operating results compared to last year are as follows (amounts expressed in thousands):

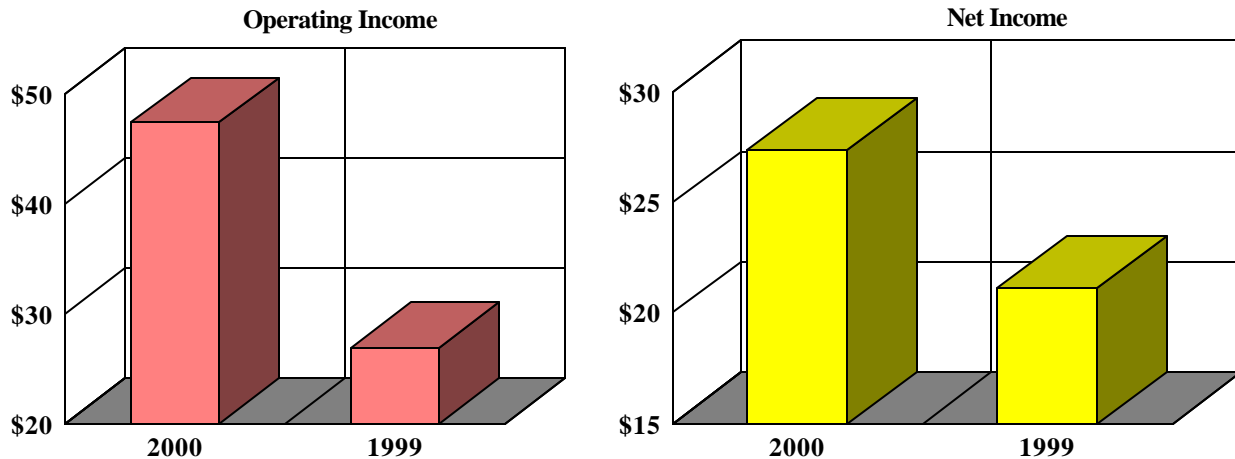
	<u>2000</u>	<u>1999</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Operating revenues	\$ 153,429	\$ 127,655	\$ 25,774	20%
Operating expenses	<u>(106,066)</u>	<u>(100,719)</u>	<u>5,347</u>	<u>5%</u>
Operating income	47,363	26,936	20,427	76%
Net nonoperating expenses	<u>(19,927)</u>	<u>(5,819)</u>	<u>14,108</u>	<u>242%</u>
Net income	<u>\$ 27,436</u>	<u>\$ 21,117</u>	<u>\$ 6,319</u>	<u>30%</u>

(See Financial Section for more details and Statistical Section for ten-year trend data.)

(\$ Millions)



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Operating revenues increased primarily as a result of an 11% increase in treated water consumption, plus a rate increase effective March 6, 2000. *Operating expenses* increased as a result of waste disposal closure and postclosure care liabilities of \$2.1 million (see Note 13 in the Financial Section), and increases in computer-related expenditures. *Net Nonoperating Expenses* increased primarily as a result of writing off obsolete engineering development costs of \$14.6 million.

Additions to Property, Plant and Equipment

Capital additions for 2000 amounted to \$87.5 million, an increase of \$21.7 million or 33% from 1999. Additions included \$59.8 million for new facilities, \$22.0 million for facility replacements and improvements, and \$5.7 million for general equipment. See “Additions to Property, Plant and Equipment” in the Statistical Section for more details.

Pension Trust Fund Operations

Net assets available for plan benefits decreased \$18,200 in 2000, after contributions, benefit payments and gains and losses on investments, to a total of \$201.1 million as of December 31, 2000. There was an excess of assets over the actuarial liability at January 1, 2000 of \$6.0 million or 13.2% of covered payroll. This compares to an unfunded actuarial liability (excess of liability over assets) of \$5.2 million or 11.8% of covered payroll at January 1, 1999. The pension trust fund investment return for 2000 was 2.8% for the year. This return compares with a return of -7.8% for the Standard & Poor’s 500 and 4.3% for the Lehman Government/Credit index. The annual actuarial valuation continues to reflect a well-funded plan. See Note 8 in the Financial Section for more details.

Debt Administration

During the year, Denver Water issued \$12,700,000 of City and County of Denver general obligation (“GO”) water refunding bonds. These represent a current refunding of \$12,700,000 of such bonds that matured during the year. At December 31, 2000, \$211,745,000 were outstanding. Since Denver Water is committed to repay the bonds and related interest from its revenues, they are not included in any City debt limitations. At the time of sale, Denver Water received an AA+ rating from Standard & Poor’s Corporation, an AA rating from Fitch IBCA and an Aa2 rating from Moody’s Investors Service for the 2000 Series GO water refunding bonds issued in September. On February 22, 2001 Moody’s Investors Service upgraded the underlying ratings on

Denver Water's 1991 and 1998 Series Certificates of Participation to Aa2 from A1 and the rating on the GO bonds from Aa2 to Aa1. On February 23, 2001 Fitch IBCA upgraded the Board's outstanding GO water bonds to AA+ from AA. In addition, at year-end, Denver Water had obligations totaling \$48,245,000 under Certificates of Participation, and \$32,265,000 Obligation Under Capital Leases. See Notes 4, 5, and 6 in the Financial Section for more details.

Disclosure Requirements

Certain information is being provided by Denver Water pursuant to various Continuing Disclosure Undertakings that have been executed by the Board in order that participating underwriters may comply with Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission. The Government Finance Officers Association of the United States and Canada ("GFOA") recommends that these disclosures be contained in the CAFR. These disclosures made by Denver Water can be found on the following pages:

Audited Financial Statements	Section B - Financial Section
Total Outstanding Indebtedness	Section B - Notes 4, 5, 6, Exhibits II-A through D
Total Treated Water Delivery/Consumption	Page C-25
Number of Customer Accounts	Page C-49
Receipts and Expenditures	Page C-56, C-57
System Development Charges and Participation Fees	Page C-58

Cash Management

The principal objective of Denver Water's investment policy is safety while attaining an appropriate rate of return. At year-end, approximately 69% of the investments were held in US government and agency securities. The remaining investments were in commercial paper, rated A-1 or P-1 by Standard & Poor's or Moody's or in money market mutual funds. All securities were classified as category one, the category of least custodial credit risk as defined by the Governmental Accounting Standards Board. Denver Water earned interest income of \$9.3 million on all investments for the year. The weighted average 12-month yield on the portfolio was 6.1%. See Note 3 in the Financial Section for more details.

Risk Management

The Board has a risk management program that includes self-insurance for liability, and self-insurance for employee medical and dental benefits through a commercial claims servicer. The Board carries commercial property insurance for catastrophic losses, including floods and earthquakes, for five major facilities, and carries limited insurance for other miscellaneous locations. The Board also carries commercial insurance for employee life, accident, and workers' compensation. Denver Water's liability is limited under the Colorado Governmental Immunity Act to \$150,000 per person and \$600,000 per occurrence. Denver Water has designated \$7.5 million of its investments as available for claims covered by self-insurance. See Note 10 in the Financial Section for more details.

Other Information

Independent Audit

The City Charter requires an annual audit of the accounts of Denver Water by the City Auditor. The independent accounting firm of Arthur Andersen LLP was jointly selected by the City Auditor and Denver Water to conduct this audit for 2000. Arthur Andersen's report is included in the financial section of this report.

Awards

Comprehensive Annual Financial Report. The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to Denver Water for its CAFR for the fiscal year ended December 31, 1999. This was the twelfth consecutive year that Denver Water has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

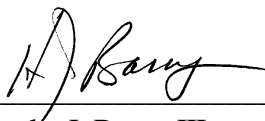
A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Annual Budget. The GFOA presented an award for Distinguished Budget Presentation to Denver Water for its annual budget for the fiscal year beginning January 1, 2000. This is the eighth consecutive year Denver Water has received this award. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device. The award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and we are submitting it to the GFOA to determine its eligibility for another award.

Acknowledgments

This report was prepared by the staff of Denver Water with the leadership and support of the Board of Water Commissioners.

Sincerely,



Hamlet J. Barry, III
Manager, Denver Water



David B. LaFrance
Director of Finance